# Workplace Safety and Insurance Board

## Second Quarter 2014 Report to Stakeholders

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Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

## Management's Responsibility for Financial Reporting

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and accompanying unaudited condensed interim consolidated financial statements, as approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"), are prepared by management as at and for the three and six months ended June 30, 2014.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2014 have been prepared in accordance with IAS 34 *Interim Financial Statements*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this MD&A, "WSIB," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated June 30, 2014, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, and involves assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

**I. David Marshall**
President and Chief Executive Officer
September 18, 2014
Toronto, Ontario

**Lawrence E. Davis**
Chief Financial Officer

# Management's Discussion and Analysis

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## 1. Quarter in Review

*Highlights of our performance for the three and six months ended June 30, 2014 compared to 2013.*

The following MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the WSIB as at and for the three and six months ended June 30, 2014 (the "consolidated financial statements").

**Financial highlights for the three months ended June 30, 2014 compared to the three months ended June 30, 2013**

- We generated $511 million of total comprehensive income reflecting continued strong operating performance resulting from continued improved return to work outcomes and a 2.6% return on our investments.
- Premium revenues decreased $20 million or 1.8% reflecting weaker growth in the construction, electrical and manufacturing sectors, $21 million of higher net mandatory employer incentive programs expense reflecting improved return to work outcomes, partially offset by a 0.7% increase in our average premium rate.
- Net investment income increased $625 million representing a 2.6% return on investments compared to a loss of 0.5% reflecting gains across all asset classes.
- Benefit payments decreased $24 million or 3.8% reflecting 3,282 or 12.4% fewer non-locked-in claims and 234 or 2.1% fewer new lost-time injuries.
- Administration and other expenses, before allocation to benefit costs, decreased $25 million or 12.4%, primarily reflecting $12 million of lower long-term benefit expenses due to an 80 basis point increase in interest rates used to value our long-term benefit plans, $3 million of lower operating expenses and the absence of a $10 million one-time provision in 2013 for Retail Sales Tax obligations related to prior years.
- Other comprehensive income was negative $114 million primarily attributed to a 50 basis point decrease in the interest rate used to value our pension plan liability.

**Financial highlights for the six months ended June 30, 2014 compared to the six months ended June 30, 2013**

- We generated $1,228 million of total comprehensive income reflecting continued strong operating performance and a 6.5% return on our investments.
- Premium revenues increased $16 million or 0.7% reflecting a 2.2% increase in insurable earnings attributable to the growth in the construction, health care, manufacturing and service sectors, a 0.4% increase in our average premium rate, net of $35 million of higher net mandatory employer incentive programs expense reflecting improved return to work outcomes.
- Net investment income increased $612 million representing a 6.5% return on investments compared to 4.0% reflecting gains across all asset classes and ahead of our long-term expectations.
- Benefit payments decreased $52 million or 4.1% reflecting 3,140 or 8.5% fewer non-locked-in claims and 117 or 0.7% fewer new lost-time injuries.
- Administration and other expenses, before allocation to benefit costs, decreased $41 million or 10.4% reflecting $25 million of lower long-term benefit expenses due to an 80 basis point increase in interest rates used to value our long-term benefit plans, $6 million of lower operating expenses and the absence of a $10 million one-time provision in 2013 for Retail Sales Tax obligations related to prior years.
- Other comprehensive income was negative $255 million primarily attributed to a 50 basis point decrease in the interest rate used to value our pension plan liability.

- Our unfunded liability was $9,564 million as at June 30, 2014, a decrease of $1,074 million or 10.1% since December 31, 2013.

**Operational highlights for the six months ended June 30, 2014**

***Claim volumes have increased marginally.*** The number of Schedule 1 registered claims increased by 0.6%, while insurable earnings rose by 2.2%. As a result, the lost-time injury rate decreased slightly from 0.92 injuries per 100 workers to 0.91. With the continued growth in employment, we anticipate that registered claims volumes will either remain unchanged or increase slightly in 2014.

***Longer term durations continue to improve.*** The percentage of workers on benefits at 48 and 72 months decreased by 1.6% and 0.5% to 3.1% and 5.2%, respectively. Workers requiring longer term support continued to see improvements. The average loss of earnings percentage at lock-in continued to decrease from 47.9% for the six months ended June 30, 2013 to 45.7% for the same period in 2014.

***Efforts continue to improve short-term duration results.*** After four consecutive quarters of increases, the percentage of workers on benefits at three and six months has started to decline. During the second quarter of 2014, the percentage of workers on benefits at three months decreased from 12.1% to 11.9% and the percentage of workers on benefits at six months decreased from 6.8% to 6.7%, indicating that operational improvements have begun to take hold.

***Improved recovery results.*** As part of our Health Care Strategy, we continue to move away from fee-for-service models towards more structured and worker-centric health care programs that integrate recovery and return to work. As a result, Specialty Clinics and Programs of Care costs increased by $0.8 million or 2.4% and $1.6 million or 18.9%, respectively. Combined, just over 30,000 injured workers participated in these integrated health care programs and the percentage of claims treated in the programs increased by 3%. This investment continued to support improved recovery outcomes. For the first half of 2014, the percentage of workers with a permanent impairment ("PI") decreased to 5.7% from 7.1% and the average PI award remained largely unchanged.

***Appeals modernization continues to show improvements in efficiency.*** The timeliness of appeals decisions continues to improve. The percentage of appeals resolved within six months increased from 43.2% in the second quarter of 2013 to 95.0% in the second quarter of 2014. The active inventory of appeals decreased from 2,766 in the first quarter of 2014 to 2,719 cases in the second quarter of 2014, and is still well below the pre-modernization inventory of almost 8,000 at December 31, 2012. The percentage of appeals allowed was unchanged from a year ago at 16%, and the percentage of appeals allowed in part saw a 1% decrease from 15% to 14% in the second quarter of 2014.

***Encouraging customer satisfaction results continued.*** Positive customer satisfaction results continued in the second quarter of 2014. The service excellence scores from employers continue to reach some of the highest levels the organization has seen. Employer scores for claims and accounts increased to 87% and 90%, from 80% and 85%, respectively from one year ago. The service excellence score for injured workers has held steady and was 76% in the second quarter of 2014.

## 2. Operating Results

*A more detailed discussion of our financial performance for the three and six months ended June 30, 2014 compared to 2013.*

This section provides a detailed discussion of our financial performance. Certain prior year figures have been reclassified to conform to the current year's presentation, see note 9 to the consolidated financial statements for details. Additionally, our consolidated financial statements have been prepared in accordance with IFRS. All amounts herein are in millions of Canadian dollars, unless otherwise specified.

### Financial highlights

The following table sets forth our operating results for the three and six months ended June 30:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2014** | **2013** | **2014** | **2013** |
| **Revenues** | | | | |
| Premiums | 1,128 | 1,127 | 2,279 | 2,228 |
| Net mandatory employer incentive programs | (35) | (14) | (59) | (24) |
| | 1,093 | 1,113 | 2,220 | 2,204 |
| Net investment income (loss) | | | | |
| Investment income (loss) | 563 | (71) | 1,315 | 684 |
| Investment expenses | (44) | (35) | (87) | (68) |
| | 519 | (106) | 1,228 | 616 |
| | **1,612** | **1,007** | **3,448** | **2,820** |
| **Expenses** | | | | |
| Benefit costs | | | | |
| Benefit payments | 612 | 636 | 1,224 | 1,276 |
| Claim administration costs | 93 | 118 | 195 | 227 |
| Change in actuarial valuation of benefit liabilities | 111 | 144 | 209 | 340 |
| | 816 | 898 | 1,628 | 1,843 |
| Loss of Retirement Income Fund contributions | 15 | 15 | 30 | 31 |
| Administration and other expenses | 84 | 84 | 159 | 168 |
| Legislated obligations and funding commitments | 72 | 64 | 148 | 143 |
| | 987 | 1,061 | 1,965 | 2,185 |
| **Excess (deficiency) of revenues over expenses** | **625** | **(54)** | **1,483** | **635** |
| **Other comprehensive income (loss)** | | | | |
| Remeasurements of employee defined benefit plans | (114) | 224 | (255) | 330 |
| **Total comprehensive income** | **511** | **170** | **1,228** | **965** |
| **Total comprehensive income attributable to:** | | | | |
| WSIB stakeholders | 445 | 178 | 1,074 | 880 |
| Non-controlling interests | 66 | (8) | 154 | 85 |
| | **511** | **170** | **1,228** | **965** |
| **Other measures** | | | | |
| Core Earnings[1] | 217 | 196 | 464 | 359 |
| Return on investments[2] | 2.6% | (0.5%) | 6.5% | 4.0% |

| | June 30 2014 | Dec 31 2013 |
|---|---|---|
| Unfunded liability[3] | (9,564) | (10,638) |

1. Core Earnings is calculated as total comprehensive income, excluding the impacts of net investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 7 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals prior to investment expenses.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total deficiency of assets of $7,033 million as at June 30, 2014 (December 31, 2013 – $8,244 million) is allocated between the WSIB stakeholders and the non-controlling interests ("NCI") on the basis of their proportionate interests in the net assets of the WSIB. NCI represent the proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100% interest. NCI of $2,531 million as at June 30, 2014 (December 31, 2013 - $2,394 million) excludes benefit liabilities since the holders of NCI, the WSIB Employees' Pension Plan and other investors are not liable for those obligations. The proportionate share of the total deficiency of assets attributable to WSIB stakeholders as at June 30, 2014 was $9,564 million (December 31, 2013 – $10,638 million) which includes benefit liabilities.

### Premiums

A summary of premiums for the three and six months ended June 30 is as follows:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| (millions of Canadian dollars) | 2014 | 2013 | $ | % | 2014 | 2013 | $ | % |
| Schedule 1 employer premiums | | | | | | | | |
| Gross Schedule 1 premiums | 1,097 | 1,095 | 2 | 0.2 | 2,219 | 2,165 | 54 | 2.5 |
| Interest and penalties | 13 | 14 | (1) | (7.1) | 23 | 27 | (4) | (14.8) |
| | 1,110 | 1,109 | 1 | 0.1 | 2,242 | 2,192 | 50 | 2.3 |
| Schedule 2 employer administration fees | 18 | 18 | - | - | 37 | 36 | 1 | 2.8 |
| | 1,128 | 1,127 | 1 | 0.1 | 2,279 | 2,228 | 51 | 2.3 |
| Net mandatory employer incentive programs | (35) | (14) | (21) | 100+ | (59) | (24) | (35) | 100+ |
| | **1,093** | **1,113** | **(20)** | **(1.8)** | **2,220** | **2,204** | **16** | **0.7** |

For the three months ended June 30, 2014, premiums decreased $20 million or 1.8% reflecting weaker growth in the construction, electrical and manufacturing sectors, $21 million of higher net mandatory employer incentive programs expense reflecting improved return to work outcomes, partially offset by a 0.7% increase in our average premium rate. For the first time since the fourth quarter of 2012, premiums are less than those in the same period in the prior year as modest growth in premiums was more than offset by higher payouts in employer incentive programs.

For the six months ended June 30, 2014, premiums increased $16 million reflecting a 0.4% increase in the average premium rate charged to employers and a 2.2% increase in insurable earnings which has slowed significantly from recent quarters, largely due to lower growth in the construction sector, partially offset by higher payouts in employer incentive programs.

### Net investment income

A summary of investment income (loss), segmented by asset class, for the three and six months ended June 30 is as follows:

| | Three months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Asset Class | 2014 | | | | 2013 | | | |
| (millions of Canadian dollars) | Investment income (loss) | Return % | Net asset value[1] | % | Investment income (loss) | Return % | Net asset value[1] | % |
| Public equities | 198 | 2.4 | 8,253 | 36.5 | 147 | 1.9 | 7,600 | 40.5 |
| Fixed income | 106 | 2.1 | 5,568 | 24.6 | (103) | (2.3) | 4,708 | 25.1 |
| Multi-asset | 201 | 3.9 | 5,071 | 22.5 | (182) | (4.5) | 3,875 | 20.6 |
| Real estate | 46 | 1.9 | 1,932 | 8.6 | 52 | 3.4 | 1,567 | 8.3 |
| Infrastructure | 11 | 2.1 | 613 | 2.7 | 13 | 4.4 | 330 | 1.8 |
| Cash and cash equivalents | 1 | - | 1,084 | 4.8 | 2 | - | 628 | 3.3 |
| Annuities | - | - | 72 | 0.3 | - | - | 68 | 0.4 |
| Investment income | **563** | **2.6** | **22,593** | **100.0** | **(71)** | **(0.5)** | **18,776** | **100.0** |
| Investment expenses | (44) | | | | (35) | | | |
| **Net investment income (loss)** | **519** | | | | **(106)** | | | |

For the three months ended June 30, 2014, net investment income represented a 2.6% gross rate of return compared to a 0.5% negative rate of return in the prior year. The increase in net investment income for the second quarter of 2014 reflects improved results in the multi-asset and fixed income investment strategies.

| Asset Class | Six months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| (millions of Canadian dollars) | Investment income (loss) | Return % | Net asset value[1] | % | Investment income (loss) | Return % | Net asset value[1] | % |
| Public equities | 544 | 7.1 | 8,253 | 36.5 | 702 | 10.2 | 7,600 | 40.5 |
| Fixed income | 236 | 4.9 | 5,568 | 24.6 | (70) | (1.6) | 4,708 | 25.1 |
| Multi-asset | 429 | 8.8 | 5,071 | 22.5 | (66) | (1.3) | 3,875 | 20.6 |
| Real estate | 79 | 3.2 | 1,932 | 8.6 | 94 | 6.2 | 1,567 | 8.3 |
| Infrastructure | 24 | 4.4 | 613 | 2.7 | 20 | 7.5 | 330 | 1.8 |
| Cash and cash equivalents | 3 | - | 1,084 | 4.8 | 4 | - | 628 | 3.3 |
| Annuities | - | - | 72 | 0.3 | - | - | 68 | 0.4 |
| Investment income | **1,315** | **6.5** | **22,593** | **100.0** | **684** | **4.0** | **18,776** | **100.0** |
| Investment expenses | (87) | | | | (68) | | | |
| **Net investment income** | **1,228** | | | | **616** | | | |

1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives.

For the six months ended June 30, 2014, net investment income represented a 6.5% gross rate of return compared to a 4.0% gross rate of return. The increase in net investment income for the first half of 2014 is due to stronger returns from multi-asset and fixed income strategies. Markets were favourable as investors anticipated that modest global growth will continue and that longer-term economic downside risks have diminished. Investors continue to rely on central bank vigilance to moderate risks of an economic slowdown.

The higher than expected returns in the first half of 2014 are not a reflection of expected future performance. We set our forward return expectations based on our long-term expected return of 6.0%.

### Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statement of financial position.

For the three and six months ended June 30, benefit costs were as follows:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| (millions of Canadian dollars) | 2014 | 2013 | $ | % | 2014 | 2013 | $ | % |
| Benefit payments | 612 | 636 | (24) | (3.8) | 1,224 | 1,276 | (52) | (4.1) |
| Claim administration costs | 93 | 118 | (25) | (21.2) | 195 | 227 | (32) | (14.1) |
| Change in actuarial valuation of benefit liabilities | 111 | 144 | (33) | (22.9) | 209 | 340 | (131) | (38.5) |
| **Total benefit costs** | **816** | **898** | **(82)** | **(9.1)** | **1,628** | **1,843** | **(215)** | **(11.7)** |

**Benefit payments**

Benefit payments represent cash paid during the three and six months ended June 30 to or on behalf of injured workers. Benefit payments are comprised of the following:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| (millions of Canadian dollars) | 2014 | 2013 | $ | % | 2014 | 2013 | $ | % |
| Loss of earnings | 222 | 229 | (7) | (3.1) | 434 | 453 | (19) | (4.2) |
| Workers' pensions | 151 | 157 | (6) | (3.8) | 302 | 315 | (13) | (4.1) |
| Health care | 113 | 115 | (2) | (1.7) | 234 | 235 | (1) | (0.4) |
| Future economic loss | 58 | 60 | (2) | (3.3) | 116 | 123 | (7) | (5.7) |
| Survivor benefits | 44 | 45 | (1) | (2.2) | 88 | 89 | (1) | (0.1) |
| External providers | 12 | 13 | (1) | (7.7) | 24 | 28 | (4) | (14.3) |
| Non-economic loss | 13 | 13 | - | - | 24 | 25 | (1) | (4.0) |
| Other | (1) | 4 | (5) | (100+) | 2 | 8 | (6) | (75.0) |
| **Total benefit payments** | **612** | **636** | **(24)** | **(3.8)** | **1,224** | **1,276** | **(52)** | **(4.1)** |

A summary of the significant changes in benefit payments for the three months ended June 30, 2014 is as follows:

- Loss of earnings benefits decreased primarily due to improved claims management through better recovery and return to work outcomes, reflecting 3,282 or 12.4% fewer non-locked-in claims as at June 30, 2014.
- Workers' pensions decreased reflecting the natural reduction of claims due to mortality.
- Future economic loss benefits decreased reflecting the natural reduction in the number of claimants that reach age 65, the age at which these benefits cease.
- External providers' expense decreased primarily due to fewer lost-time injuries and a more targeted approach to return to work.
- Other benefit costs decreased primarily due to lower overpayments of wage loss and pension benefits and temporary supplements for claims prior to Bill 99.

A summary of the significant changes in benefit payments for the six months ended June 30, 2014 is as follows:

- Loss of earnings benefits decreased primarily due to improved claims management through better recovery and return to work outcomes, reflecting 3,140 or 8.5% fewer non-locked-in claims as at June 30, 2014.
- Workers' pensions decreased reflecting the natural reduction of claims due to mortality.
- Future economic loss benefits decreased reflecting the natural reduction in the number of claimants that reach age 65, the age at which these benefits cease.
- External providers' expense decreased primarily due to fewer lost-time injuries and a more targeted approach to return to work.
- Other benefit costs decreased primarily due to lower overpayments of wage loss and pension benefits and temporary supplements for claims prior to Bill 99.

### Claim administration costs

Claim administration costs reflect the portion of administration and other expenses allocated to claim administration costs. For the three and six months ended June 30, 2014, there has been a decrease in total administration and other expenses, which decreased the allocation to claim administration costs.

The decrease for the three and six months ended June 30, 2014 is also attributed to a slight decrease in the allocation percentage of claim administration costs compared to the prior year.

### Change in actuarial valuation of benefit liabilities

The change in actuarial valuation of benefit liabilities is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2014** | **2013** | **2014** | **2013** |
| Change in actuarial valuation of benefit liabilities | 111 | 144 | 209 | 340 |

Change in actuarial valuation of benefit liabilities primarily reflects a $115 million charge for the anticipated costs of presumptive legislation for firefighters pursuant to the amendment of *Ontario Regulation 253/07* (Firefighters).

Change in actuarial valuation of benefit liabilities for the six months ended June 30 is detailed as follows:

| **(millions of Canadian dollars)** | |
|---|---|
| Benefit liabilities as at December 31, 2013 | 26,960 |
| Payments made in 2014 | (1,324) |
| Interest accretion[1] | 657 |
| Liabilities incurred for the 2014 injury year | 873 |
| Experience gains | (112) |
| Impact of regulation amendment[2] | 115 |
| **Benefit liabilities as at June 30, 2014** | **27,169** |
| **Change in actuarial valuation of benefit liabilities** | **209** |

1. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the period and payments made during the period.
2. On May 1, 2014, *Ontario Regulation 113/14* under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA") came into effect, amending *Ontario Regulation 253/07* (Firefighters) to provide new presumptions for six additional cancers. Three of these presumptions took effect on May 1, 2014. The remaining presumptions will be phased in over the next three years. As per the WSIA, the presumptions are retroactive to January 1, 1960. For the presumptions to apply, breast and testicular cancers require 10 years' service before diagnosis. The other conditions require 15 years' service.

**Administration and other expenses**

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| **(millions of Canadian dollars)** | **2014** | **2013** | **$** | **%** | **2014** | **2013** | **$** | **%** |
| Salaries and short-term benefits | 100 | 95 | 5 | 5.3 | 197 | 189 | 8 | 4.2 |
| Long-term benefit plans | 32 | 44 | (12) | (27.3) | 64 | 89 | (25) | (28.1) |
| Bad debts | 19 | 7 | 12 | 100+ | 19 | 17 | 2 | 11.8 |
| Communications | 3 | 3 | - | - | 5 | 5 | - | - |
| Depreciation and amortization | 2 | 5 | (3) | (60.0) | 6 | 11 | (5) | (45.5) |
| Equipment and maintenance | 8 | 10 | (2) | (20.0) | 22 | 22 | - | - |
| Facilities | 8 | 11 | (3) | (27.3) | 19 | 21 | (2) | (9.5) |
| New systems development and integration | 2 | 6 | (4) | (66.7) | 9 | 7 | 2 | 28.6 |
| Termination benefits | (2) | 4 | (6) | (100+) | - | 10 | (10) | (100.0) |
| Other | 5 | 17 | (12) | (70.6) | 13 | 24 | (11) | (45.8) |
| | 177 | 202 | (25) | (12.4) | 354 | 395 | (41) | (10.4) |
| Claim administration costs allocated to benefit costs | (93) | (118) | 25 | (21.2) | (195) | (227) | 32 | 14.1 |
| **Total administration and other expenses** | **84** | **84** | **-** | **-** | **159** | **168** | **(9)** | **(5.4)** |

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the three months ended June 30, 2014 is as follows:

- Long-term benefit plans decreased primarily due to an 80 basis point increase in interest rates used to value our pension and other post-retirement obligations.
- Bad debts increased primarily due to accounts deemed uncollectible.
- Termination benefits decreased primarily due to the reversal of a prior year accrual for anticipated terminations that did not occur.
- Other expenses decreased due to a one-time provision of $10 million in 2013 for Retail Sales Tax obligations related to prior years and $2 million of lower operating expenses.

A summary of the significant changes in administration and other expenses, before allocation to benefit costs, for the six months ended June 30, 2014 is as follows:

- Salaries and short-term benefits increased reflecting inflationary pressures and higher costs for temporary staff supporting our business transformation efforts.
- Long-term benefit plans decreased primarily due to an 80 basis point increase in interest rates used to value our pension and other post-retirement obligations.
- Termination benefits decreased primarily due to the absence of significant staff reductions in 2014.
- Other expenses decreased due to a one-time provision of $10 million in 2013 for Retail Sales Tax obligations related to prior years and $1 million of lower operating expenses.

## Legislated obligations and funding commitments

Legislated obligations and funding commitments are as follows:

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change | | | | Change | |
| (millions of Canadian dollars) | 2014 | 2013 | $ | % | 2014 | 2013 | $ | % |
| **Legislated obligations** | | | | | | | | |
| Occupational Health and Safety Act | 23 | 18 | 5 | 27.8 | 47 | 46 | 1 | 2.2 |
| Ministry of Labour Prevention Costs | 25 | 20 | 5 | 25.0 | 54 | 49 | 5 | 10.2 |
| | 48 | 38 | 10 | 26.3 | 101 | 95 | 6 | 6.3 |
| Workplace Safety and Insurance Appeals Tribunal | 6 | 5 | 1 | 20.0 | 10 | 10 | - | - |
| Workplace Safety and Insurance Advisory Program | | | | | | | | |
| Office of the Workers' Adviser | 3 | 3 | - | - | 7 | 6 | 1 | 16.7 |
| Office of the Employers' Adviser | 1 | 1 | - | - | 2 | 2 | - | - |
| | 4 | 4 | - | - | 9 | 8 | 1 | 12.5 |
| **Total legislated obligations** | 58 | 47 | 11 | 23.4 | 120 | 113 | 7 | 6.2 |
| **Funding commitments** | | | | | | | | |
| Grants | 1 | 1 | - | - | 1 | 1 | - | - |
| Safety program rebates | 13 | 16 | (3) | (18.8) | 27 | 29 | (2) | (6.9) |
| **Total funding commitments** | 14 | 17 | (3) | (17.6) | 28 | 30 | (2) | (6.7) |
| | **72** | **64** | **8** | **12.5** | **148** | **143** | **5** | **3.5** |

For the three months ended June 30, 2014, legislated obligations and funding commitments were $72 million, an increase of $8 million or 12.5% reflecting an underspend in the previous year by the Ministry of Labour (the "MoL"), partially offset by lower Safety program rebates due to less favourable program results.

For the six months ended June 30, 2014, legislated obligations and funding commitments were $148 million, an increase of $5 million or 3.5% reflecting an underspend in the previous year by the MoL, partially offset by lower Safety program rebates due to less favourable program results.

## 3. Financial Condition

***A discussion of the significant changes in our June 30, 2014 consolidated statement of financial position.***

Changes in our consolidated statement of financial position are as follows:

| (millions of Canadian dollars) | Jun. 30 2014 | Dec. 31 2013 | Change $ | Change % | Commentary |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,416 | 1,274 | 142 | 11.1 | Increase reflects stronger operating performance. |
| Receivables | 1,520 | 1,168 | 352 | 30.1 | Higher experience rating surcharge provision and higher investment receivables. |
| Equity securities | 8,842 | 8,567 | 275 | 3.2 | See Section 2 – Operating Results. Increases due to change in fair values and cash transferred to the investment portfolio. |
| Bonds | 5,995 | 5,448 | 547 | 10.0 | |
| Other invested assets | 6,326 | 5,893 | 433 | 7.3 | |
| Property and equipment | 129 | 133 | (4) | (3.0) | No significant changes. |
| Intangible assets | 61 | 27 | 34 | 100+ | Increase due to implementation of a new information system. |
| **Liabilities** | | | | | |
| Payables and accruals | 1,117 | 1,090 | 27 | 2.5 | No significant changes. |
| Derivative liabilities | 66 | 78 | (12) | (15.4) | Reflects changes in our currency and futures positions within our investment portfolio. |
| Long-term debt | 167 | 168 | (1) | (0.6) | No significant changes. |
| Loss of Retirement Income Fund liability | 1,618 | 1,538 | 80 | 5.2 | Reflects natural growth in account due to contributions and investment income. |
| Employee benefit plans liability | 1,185 | 920 | 265 | 28.8 | Reflects losses due to actuarial assumption changes and experience. |
| Benefit liabilities | 27,169 | 26,960 | 209 | 0.8 | See Section 2 – Operating Results. Changes in actuarial methods and assumptions. |
| Unfunded liability | (9,564) | (10,638) | 1,074 | 10.1 | Total comprehensive income attributable to WSIB stakeholders. |

## 4. Summary of Quarterly Results

*A summary view of our quarterly financial performance.*

Selected financial information for the eight consecutive quarters ended June 30, 2014 is as follows:

| | 2014 | | 2013 | | | | 2012[4] | |
|---|---|---|---|---|---|---|---|---|
| **(millions of Canadian dollars)** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
| Net premiums | 1,093 | 1,127 | 1,034 | 1,149 | 1,113 | 1,091 | 988 | 1,068 |
| Net investment income (loss) | 519 | 709 | 894 | 532 | (106) | 722 | 433 | 488 |
| **Benefit costs** | | | | | | | | |
| Benefit payments | 612 | 612 | 629 | 613 | 636 | 640 | 649 | 637 |
| Claim administration costs | 93 | 102 | 109 | 109 | 118 | 109 | 128 | 101 |
| Change in actuarial valuation of benefit liabilities | 111 | 98 | (330) | (100) | 144 | 196 | 512 | 8 |
| | 816 | 812 | 408 | 622 | 898 | 945 | 1,289 | 746 |
| Loss of Retirement Income Fund contributions | 15 | 15 | 15 | 16 | 15 | 16 | 17 | 16 |
| Administration and other expenses | 84 | 75 | 108 | 85 | 84 | 84 | 102 | 71 |
| Legislated obligations and funding commitments | 72 | 76 | 71 | 72 | 64 | 79 | 80 | 77 |
| Excess (deficiency) of revenues over expenses | 625 | 858 | 1,326 | 886 | (54) | 689 | (67) | 646 |
| Remeasurements of employee defined benefit plans (Other comprehensive income (loss)) | (114) | (141) | 308 | 202 | 224 | 106 | 18 | (89) |
| Total comprehensive income (loss) | 511 | 717 | 1,634 | 1,088 | 170 | 795 | (49) | 557 |
| Total comprehensive income (loss) attributable to WSIB stakeholders | 445 | 629 | 1,523 | 1,020 | 178 | 702 | (107) | 493 |
| **Other measures** | | | | | | | | |
| Core Earnings[1] | 217 | 247 | 102 | 254 | 196 | 163 | 12 | 166 |
| Unfunded liability[2] | 9,564 | 10,009 | 10,638 | 12,161 | 13,181 | 13,359 | 14,061 | 13,954 |
| Return on investments (%)[3] | 2.6 | 3.8 | 5.0 | 3.1 | (0.5) | 4.5 | 2.8 | 3.4 |

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, particularly in the construction industry. While we continue to reflect higher insurable earnings across most industry sectors supported by strengthening economic conditions, we have observed weaker growth in the construction industry in the second quarter of 2014 as compared to the prior year. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by global capital markets, which are volatile and we anticipate continued volatility in net investment income. The ongoing implementation of the Strategic Investment Plan is expected to reduce volatility over time.

1. Core Earnings is calculated as total comprehensive income (loss), excluding the impacts of net investment income (loss), changes in actuarial valuation and any items that are considered as material and exceptional in nature. See Section 7 – Non-IFRS Financial Measure.
2. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period. The total deficiency of assets of $7,033 million as at June 30, 2014 (December 31, 2013 – $8,244 million) is allocated between the WSIB stakeholders and the NCI on the basis of their proportionate interests in the net assets of the WSIB. NCI represent the proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100% interest. NCI of $2,531 million as at June 30, 2014 (December 31, 2013 - $2,394 million) excludes benefit liabilities since the holders of NCI, the WSIB Employees' Pension Plan and other investors are not liable for those obligations. The proportionate share of the total deficiency of assets attributable to WSIB stakeholders as at June 30, 2014 was $9,564 million (December 31, 2013 – $10,638 million) which includes benefit liabilities.
3. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals prior to investment expenses. Does not equal annual figures due to rounding.
4. Comparative figures for 2012 have not been adjusted for the changes in accounting policies adopted in 2013.

## 5. Outlook

*The outlook for our business.*

| Original Expectation | Current Outlook |
|---|---|
| *Premiums.* 3.0% increase reflecting a 3.0% increase in insurable earnings and no increase in average published premium rates. | *Premiums.* 1.9% increase reflecting insurable earnings' growth of 2.0%, an average premium rate of $2.53 based on favourable industry sector mix, partially offset by lower premiums in 2014 related to prior years. |
| *Net investment income.* We anticipate annual investment income will approximate 6.0% over the long-term. | *Net investment income.* No change. |
| *Benefit costs.* Continued downward trend reflecting improved operating results. | *Benefit costs.* No change. |
| *Administration and other expenses.* Anticipated to remain stable. | *Administration and other expenses.* Lower expenses reflecting an 80 basis point increase in interest rates used to measure long-term benefit plans expense. |
| *Legislated obligations.* Modest growth in this area reflecting the full cost of transitioning prevention activities to the MoL combined with an increase in Safety program rebates. | *Legislated obligations.* No change. |
| *Unfunded liability.* Based on current funding and benefit levels and as measured under current accounting and actuarial standards, we believe the unfunded liability will decrease in 2014 and beyond, reflecting continued improved operating performance. | *Unfunded liability.* No change. |

## 6. Internal Control over Financial Reporting

*A statement of responsibilities regarding internal control over financial reporting.*

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the annual report and ensuring its consistency with the consolidated financial statements.

## 7. Non-IFRS Financial Measure

*A definition of our non-IFRS financial measure.*

**Core Earnings**

The WSIB uses a non-IFRS financial measure, "Core Earnings", to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings is defined as total comprehensive income excluding the impacts of net investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other organizations.

Set forth below is the reconciliation of Core Earnings and comprehensive income, the most directly comparable financial measure calculated and presented consistent with IFRS:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **(millions of Canadian dollars)** | **2014** | **2013** | **2014** | **2013** |
| **Total comprehensive income for the period** | 511 | 170 | 1,228 | 965 |
| *(Less)/Add*: Net investment income (loss) | (519) | 106 | (1,228) | (616) |
| *Add*: Change in actuarial valuation of benefit liabilities | 111 | 144 | 209 | 340 |
| *(Less)/Add*: Change in actuarial valuation of employee benefit plans | 114 | (224) | 255 | (330) |
| **Core Earnings** | **217** | **196** | **464** | **359** |

## 8. Forward-looking Statements

*Caution regarding forward-looking statements.*

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements are based on current expectations, various assumptions and analyses, expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

We believe that the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore,

unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation.

# WORKPLACE SAFETY AND INSURANCE BOARD

## Condensed Interim Consolidated Statements of Financial Position
## Unaudited (millions of Canadian dollars)

| | Note | June 30 2014 | December 31 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 1,416 | 1,274 |
| Receivables | | 1,520 | 1,168 |
| Equity securities | 3 | 8,842 | 8,567 |
| Bonds | 3 | 5,995 | 5,448 |
| Other invested assets | 3 | 6,326 | 5,893 |
| Property and equipment | | 129 | 133 |
| Intangible assets | | 61 | 27 |
| **Total assets** | | **24,289** | **22,510** |
| **Liabilities** | | | |
| Payables and accruals | | 1,117 | 1,090 |
| Derivative liabilities | | 66 | 78 |
| Long-term debt | | 167 | 168 |
| Loss of Retirement Income Fund liability | | 1,618 | 1,538 |
| Employee benefit plans liability | 4 | 1,185 | 920 |
| Benefit liabilities | 5 | 27,169 | 26,960 |
| **Total liabilities** | | **31,322** | **30,754** |
| **Deficiency of assets** | | | |
| Unfunded liability attributable to WSIB stakeholders | | (9,564) | (10,638) |
| Non-controlling interests | | 2,531 | 2,394 |
| **Total deficiency of assets** | | **(7,033)** | **(8,244)** |
| **Total liabilities and deficiency of assets** | | **24,289** | **22,510** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD

**Condensed Interim Consolidated Statements of Comprehensive Income**
**Unaudited (millions of Canadian dollars)**

| | Note | Three months ended June 30 2014 | Three months ended June 30 2013 | Six months ended June 30 2014 | Six months ended June 30 2013 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums | | 1,128 | 1,127 | 2,279 | 2,228 |
| Net mandatory employer incentive programs | | (35) | (14) | (59) | (24) |
| | | 1,093 | 1,113 | 2,220 | 2,204 |
| Net investment income (loss) | | | | | |
| Investment income (loss) | 3 | 563 | (71) | 1,315 | 684 |
| Investment expenses | 3 | (44) | (35) | (87) | (68) |
| | | 519 | (106) | 1,228 | 616 |
| | | **1,612** | **1,007** | **3,448** | **2,820** |
| **Expenses** | | | | | |
| Benefit costs | | | | | |
| Benefit payments | | 612 | 636 | 1,224 | 1,276 |
| Claim administration costs | | 93 | 118 | 195 | 227 |
| Change in actuarial valuation of benefit liabilities | | 111 | 144 | 209 | 340 |
| | | 816 | 898 | 1,628 | 1,843 |
| Loss of Retirement Income Fund contributions | | 15 | 15 | 30 | 31 |
| Administration and other expenses | | 84 | 84 | 159 | 168 |
| Legislated obligations and funding commitments | 6 | 72 | 64 | 148 | 143 |
| | | **987** | **1,061** | **1,965** | **2,185** |
| **Excess (deficiency) of revenues over expenses** | | **625** | **(54)** | **1,483** | **635** |
| **Other comprehensive income (loss)** | | | | | |
| Remeasurements of employee defined benefit plans | 4 | (114) | 224 | (255) | 330 |
| **Total comprehensive income** | | **511** | **170** | **1,228** | **965** |

| | Three months ended June 30 2014 | Three months ended June 30 2013 | Six months ended June 30 2014 | Six months ended June 30 2013 |
|---|---|---|---|---|
| Excess (deficiency) of revenues over expenses attributable to: | | | | |
| WSIB stakeholders | 559 | (46) | 1,329 | 550 |
| Non-controlling interests | 66 | (8) | 154 | 85 |
| | **625** | **(54)** | **1,483** | **635** |
| Total comprehensive income attributable to: | | | | |
| WSIB stakeholders | 445 | 178 | 1,074 | 880 |
| Non-controlling interests | 66 | (8) | 154 | 85 |
| | **511** | **170** | **1,228** | **965** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD

## Condensed Interim Consolidated Statements of Changes in Deficiency of Assets

**Unaudited (millions of Canadian dollars)**

| | | Deficiency of assets | | |
|---|---|---|---|---|
| | Note | Unfunded liability attributable to WSIB stakeholders | Non-controlling interests | Total |
| Balance as at December 31, 2012 | | (14,061) | 2,103 | (11,958) |
| Excess of revenues over expenses | | 550 | 85 | 635 |
| Remeasurements of employee defined benefit plans | | 330 | - | 330 |
| Change in ownership share in investments | | - | 12 | 12 |
| Balance as at June 30, 2013 | | (13,181) | 2,200 | (10,981) |
| Excess of revenues over expenses | | 2,033 | 179 | 2,212 |
| Remeasurements of employee defined benefit plans | | 510 | - | 510 |
| Change in ownership share in investments | | - | 15 | 15 |
| Balance as at December 31, 2013 | | (10,638) | 2,394 | (8,244) |
| Excess of revenues over expenses | | 1,329 | 154 | 1,483 |
| Remeasurements of employee defined benefit plans | 4 | (255) | - | (255) |
| Change in ownership share in investments | | - | (17) | (17) |
| **Balance as at June 30, 2014** | | **(9,564)** | **2,531** | **(7,033)** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD

**Condensed Interim Consolidated Statements of Cash Flows**
**Unaudited (millions of Canadian dollars)**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Operating activities:** | | | | |
| Total comprehensive income | 511 | 170 | 1,228 | 965 |
| Adjustments: | | | | |
| Amortization of net premium on investments | - | 2 | 3 | 5 |
| Depreciation and amortization of property, equipment and intangible assets | 3 | 6 | 8 | 13 |
| Changes in fair value of investments | (411) | 271 | (1,048) | (385) |
| Changes in fair value of investment properties | (12) | (10) | (13) | (14) |
| Dividend income from equity securities | (88) | (92) | (169) | (150) |
| Income from associates and joint ventures | (7) | (20) | (14) | (28) |
| Interest income | (55) | (56) | (108) | (124) |
| Interest expense | 4 | 3 | 7 | 7 |
| | **(55)** | **274** | **(106)** | **289** |
| Changes in non-cash balances related to operations: | | | | |
| Receivables, excluding those related to investing activities | 9 | (77) | (62) | (145) |
| Payables and accruals, excluding those related to investing activities | 63 | 91 | 3 | 7 |
| Loss of Retirement Income Fund liability | 33 | (6) | 80 | 49 |
| Employee benefit plans liability | 117 | (197) | 265 | (273) |
| Benefit liabilities | 111 | 144 | 209 | 340 |
| | 333 | (45) | 495 | (22) |
| **Net cash provided by operating activities** | **278** | **229** | **389** | **267** |
| **Investing activities:** | | | | |
| Dividends received from equity securities, associates and joint ventures | 92 | 98 | 173 | 150 |
| Interest received | 72 | 71 | 107 | 122 |
| Purchases of property, equipment and intangible assets | (33) | (1) | (38) | (4) |
| Purchases of investments | (5,171) | (5,913) | (10,594) | (11,421) |
| Sale and maturities of investments | 4,817 | 5,661 | 10,371 | 10,720 |
| Additions to investment properties | (9) | (3) | (16) | (6) |
| Acquisition of associates and joint ventures | (4) | (3) | (43) | (6) |
| Disposition of associates and joint ventures | 1 | - | 1 | 6 |
| Business acquisitions | - | (152) | (184) | (152) |
| **Net cash required by investing activities** | **(235)** | **(242)** | **(223)** | **(591)** |
| **Financing activities:** | | | | |
| Disposition of non-controlling interests | 11 | 13 | 28 | 16 |
| Distributions paid by subsidiaries to non-controlling interests | (25) | (15) | (45) | (26) |
| Net issue (repayment) of long-term debt | 1 | (1) | - | 2 |
| Interest paid on long-term debt | (4) | (3) | (7) | (7) |
| **Net cash required by financing activities** | **(17)** | **(6)** | **(24)** | **(15)** |
| **Increase (decrease) in cash and cash equivalents** | **26** | **(19)** | **142** | **(339)** |
| Cash and cash equivalents, beginning of period | 1,390 | 1,011 | 1,274 | 1,331 |
| **Cash and cash equivalents, end of period** | **1,416** | **992** | **1,416** | **992** |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

# WORKPLACE SAFETY AND INSURANCE BOARD

**Notes to Condensed Interim Consolidated Financial Statements**
**June 30, 2014**
**Unaudited (millions of Canadian dollars)**

## 1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

## 2. Statement of Compliance

These condensed interim consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), which have been adopted by the Accounting Standards Board of Canada as Canadian generally accepted accounting principles for public interest entities.

These consolidated financial statements should be read in conjunction with the annual information available in the fourth quarter interim consolidated financial statements and the accompanying notes for the period ended December 31, 2013. These consolidated financial statements have been prepared on a basis consistent with the policies outlined in the notes to the fourth quarter interim consolidated financial statements for the period ended December 31, 2013.

These consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on September 18, 2014.

## 3. Invested Assets and Net Investment Income

The following provides a summary of the nature of the invested assets by asset strategy:

| | Public equities | Fixed income | Multi-asset | Real estate | Infra-structure | Other | Jun. 30 2014 | Dec. 31 2013 |
|---|---|---|---|---|---|---|---|---|
| **Equity securities** | **8,223** | **-** | **469** | **-** | **150** | **-** | **8,842** | **8,567** |
| **Bonds** | **-** | **5,539** | **456** | **-** | **-** | **-** | **5,995** | **5,448** |
| **Other invested assets** | | | | | | | | |
| Investment funds | - | - | 3,671 | - | 355 | - | **4,026** | 4,004 |
| Real estate debentures | - | - | - | 369 | - | - | **369** | 371 |
| Investment properties (note 7) | - | - | - | 1,175 | - | - | **1,175** | 970 |
| Investments in associates and joint ventures | - | - | - | 388 | 96 | - | **484** | 436 |
| Derivative assets | 29 | - | 163 | - | 8 | - | **200** | 37 |
| Annuities | - | - | - | - | - | 72 | **72** | 75 |
| | **29** | **-** | **3,834** | **1,932** | **459** | **72** | **6,326** | **5,893** |

# WORKPLACE SAFETY AND INSURANCE BOARD

**Notes to Condensed Interim Consolidated Financial Statements**
**June 30, 2014**
**Unaudited (millions of Canadian dollars)**

## Net investment income

Net investment income (loss) is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Equity securities | 155 | 268 | 647 | 921 |
| Bonds | 111 | (105) | 271 | (62) |
| Investment funds | (22) | 22 | 225 | 113 |
| Real estate debentures | 5 | 8 | 10 | 24 |
| Investment properties | 38 | 28 | 63 | 49 |
| Income from associates and joint ventures | 7 | 20 | 14 | 28 |
| Derivatives | 305 | (318) | 169 | (344) |
| Short-term securities | - | - | 1 | 2 |
| Investment expenses | (44) | (35) | (87) | (68) |
| Less: Loss (income) attributable to Loss of Retirement Income Fund | (36) | 6 | (85) | (47) |
| | **519** | **(106)** | **1,228** | **616** |

Net investment income (loss) is comprised of the following:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Realized and unrealized gains on financial instruments | 765 | 794 | 2,141 | 2,111 |
| Realized and unrealized losses on financial instruments | (353) | (1,065) | (1,092) | (1,726) |
| Interest and dividend income | 142 | 146 | 274 | 269 |
| Income from associates and joint ventures | 7 | 20 | 14 | 28 |
| Income from investment properties | 38 | 28 | 63 | 49 |
| Less: Loss (income) attributable to Loss of Retirement Income Fund | (36) | 6 | (85) | (47) |
| Investment income (loss) | 563 | (71) | 1,315 | 684 |
| Investment expenses | (44) | (35) | (87) | (68) |
| | **519** | **(106)** | **1,228** | **616** |

WORKPLACE SAFETY AND INSURANCE BOARD

**Notes to Condensed Interim Consolidated Financial Statements**
**June 30, 2014**
**Unaudited (millions of Canadian dollars)**

## 4. Employee Benefit Plans

Remeasurements of the employee defined benefit plans recognized in other comprehensive income (loss) are as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Actuarial gains and losses arising from changes in demographic assumptions[1] | 6 | - | (51) | - |
| Actuarial gains and losses arising from changes in financial assumptions[2] | (154) | 256 | (299) | 289 |
| Actuarial gains and losses arising from demographic and other experience | (2) | - | (1) | - |
| Return in excess of interest income on plan assets | 36 | (32) | 96 | 41 |
| | **(114)** | **224** | **(255)** | **330** |

1. Commencing March 31, 2014, mortality assumptions for all employee future benefit plans, excluding Workplace Accident and Long Term Disability plans, were updated and are now based on a mortality improvement scale published by the Canadian Institute of Actuaries (the "CIA") for financial reporting purposes for a broad range of Canadian pension plans.
2. As at June 30, 2014, the discount rate reflects the CIA approach. Under this approach, the discount rate is the rate that produces the same present value as obtained by applying notional zero coupon yields to the projected cash flow obligations for the plan. For the comparative periods, the discount rate was based on long-term corporate yields.

Remeasurements are never reclassified to expenses; other comprehensive income (loss) related to the remeasurements is immediately transferred to the unfunded liability.

### Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Present value of unfunded obligations | 674 | 598 |
| Present value of wholly or partly funded obligations | 3,013 | 2,665 |
| Total present value of obligations | 3,687 | 3,263 |
| Fair value of plan assets | (2,502) | (2,343) |
| **Deficit** | **1,185** | **920** |

WORKPLACE SAFETY AND INSURANCE BOARD
**Notes to Condensed Interim Consolidated Financial Statements**
**June 30, 2014**
**Unaudited (millions of Canadian dollars)**

## 5. Benefit Liabilities

Benefit liabilities are comprised of the following:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Loss of earnings | 9,537 | 9,314 |
| Workers' pensions | 6,155 | 6,318 |
| Health care | 3,824 | 3,721 |
| Survivor benefits | 2,617 | 2,579 |
| Future economic loss | 1,682 | 1,766 |
| External providers | 268 | 257 |
| Non-economic loss | 305 | 296 |
| Long latency occupational diseases | 1,645 | 1,565 |
| Claim administration costs | 1,136 | 1,144 |
| | **27,169** | **26,960** |

A summary of the changes in benefit liabilities is as follows:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Benefit liabilities, beginning of period | 26,960 | 27,050 |
| Benefit costs | 1,628 | 2,873 |
| Benefit costs paid during the period | (1,419) | (2,963) |
| **Benefit liabilities, end of period** | **27,169** | **26,960** |

## 6. Commitments and Contingent Liabilities

### Investment commitments

The WSIB had the following commitments related to its investment portfolio:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Real estate, multi-asset and infrastructure investments | 725 | 606 |
| Investments in associates and joint ventures | 155 | 198 |
| Purchase or development of investment properties | 12 | 197 |
| | **892** | **1,001** |

### Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at June 30, 2014 were approximately $254 for the period from July 1, 2014 to June 30, 2015.

### Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

## 7. Fair Value Measurement and Disclosures

During the six months ended June 30, 2014 and the year ended December 31, 2013, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

The following table provides the fair value hierarchy classifications for assets and liabilities:

| | June 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets and liabilities measured at fair value** | | | | | | | | |
| Cash and cash equivalents[1] | 412 | 1,004 | - | 1,416 | 747 | 527 | - | 1,274 |
| Equity securities | 8,650 | 192 | - | 8,842 | 8,392 | 175 | - | 8,567 |
| Bonds | - | 5,995 | - | 5,995 | - | 5,448 | - | 5,448 |
| Investment funds | - | 4,026 | - | 4,026 | - | 4,004 | - | 4,004 |
| Real estate debentures | - | - | 369 | 369 | - | - | 371 | 371 |
| Investment properties | - | - | 1,175 | 1,175 | - | - | 970 | 970 |
| Derivative assets | - | 200 | - | 200 | - | 37 | - | 37 |
| Annuities | - | 72 | - | 72 | - | 75 | - | 75 |
| Derivative liabilities | - | (66) | - | (66) | - | (78) | - | (78) |
| **Liabilities for which fair value is disclosed** | | | | | | | | |
| Long-term debt | - | (189) | - | (189) | - | (191) | - | (191) |

1. Cash and cash equivalents include cash of $412 and short-term money market securities of $1,004 (December 31, 2013 – $747 and $527, respectively).

The table below provides a general description of the valuation methods used for fair value measurements.

| Hierarchy level | Valuation method |
|---|---|
| Level 1 | Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date. |
| Level 2 | Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities. |
| Level 3 | *Real estate debentures*<br>The fair value of the real estate debentures is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties.<br>*Investment properties*<br>Fair values of investment properties are estimated based on valuations performed by qualified appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. At least one valuation per year for each property is based on an independent appraisal. |

**Real estate debentures (Level 3 fair value measurements)**

The table below provides a reconciliation of the fair value of real estate debentures:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Balance, beginning of period | 371 | 356 |
| Purchases | 1 | 3 |
| Sales | (8) | (1) |
| Realized gains recognized in net investment income | 2 | - |
| Unrealized gains recognized in net investment income | 3 | 13 |
| **Balance, end of period** | **369** | **371** |

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| **Real estate debentures** | | |
| Discount rates | 5.5% - 8.3% | 5.5% - 8.5% |
| Terminal capitalization rates | 4.8% - 7.5% | 4.8% - 7.8% |

The WSIB has estimated that a 50 basis point increase in the assumptions used for both the terminal capitalization rate and discount rate would result in a $37 decrease (December 31, 2013 – $40) in the fair value of the real estate debentures. A 50 basis point decrease in the assumptions used for both the terminal capitalization rate and discount rate would result in a $43 increase (December 31, 2013 – $45) in the estimated fair value of the real estate debentures. The WSIB has also estimated that a 5.0% increase (decrease) in the expected future cash flows of the underlying properties would result in an increase (decrease) of $20 (December 31, 2013 – $21) in the fair value of the real estate debentures.

**Investment Properties (Level 3 fair value measurements)**

The table below provides a reconciliation of the fair value of investment properties:

| | June 30 2014 | December 31 2013 |
|---|---|---|
| Balance, beginning of period | 970 | 643 |
| Asset acquisitions | - | 51 |
| Business combinations | 184 | 224 |
| Capital expenditures | 16 | 17 |
| Gains from increases in fair value | 13 | 24 |
| Other | (8) | 11 |
| **Balance, end of period** | **1,175** | **970** |

## 8. Related Party Transactions

**Government of Ontario and related entities**

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the Occupational Health and Safety Act. The WSIB is also required to fund costs associated with the Ministry of Labour's prevention activities, the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for voluntary employer incentive programs, the Institute for Work & Health and the Safe Workplace Associations, clinics and training centres. The total funding provided under these legislated obligations and funding commitments for the three and six months ended June 30, 2014 were $72 and $148, respectively (2013 – $64 and $143).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expense, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,232 (December 31, 2013 – $1,083).

**Post-employment benefit plans**

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties.

## 9. Comparative Figures

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.

The WSIB offers premium rebates under voluntary employer incentive programs to encourage improvements in health and safety measures. These rebates are not directly related to premiums and therefore, were reclassified from premium revenues to legislated obligations and funding commitments expense. Additionally, invested assets were reclassified to better reflect their nature and the investment strategies.